
Senate Budget and Fiscal Review—Wesley Chesbro, Chair
SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1
Chair, Jack Scott
Member, Bob Margett
Member, Joe Simitian

Agenda

May 9, 2005

1:30 pm or Upon Adjournment of Session – Room 113

I. <u>Legislative, Executive, and Judicial Fellows Programs</u>	Page 2
II. <u>California Student Aid Commission</u>	Page 3
A. Cal Grant Program -- Update	Page 4
B. Proposed Decrease in Award Level for Private College Students	Page 5
C. Shift of EdFUND <i>Student Loan Operating Funds</i> to Cal Grants	Page 6
D. EdFUND: Current Organization Issues	Page 7
E. National Guard APLE Program	Page 8
III. <u>Consent</u>	Page 9

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

I. Legislative, Executive, and Judicial Fellows Programs

Background. The Center for California Studies at California State University, Sacramento administers the four Capital Fellows programs in partnership with the legislature, the executive branch, and the courts. Funding for this program is appropriated annually in a distinct Budget Act line item within the California State University's budget.

2005-06 funding for the Capital Fellows Programs is proposed to remain constant at the current year level of \$2.73 million; this amount has fluctuated slightly over the years between a high of \$2.9 million in 2002-03 and a low of \$2.6 million the following year (2003-04.)

Funding Request. The Center for California Studies staff contends that the funding appropriated has not been sufficient to cover the additional costs associated with health benefits or the student fee increases charged to the fellows programs for the academic component of their fellowship. As such, Center staff are requesting an augmentation of \$297,000 to cover these increased costs (\$22,000 for fee increases and \$275,000 for increased benefits costs).

In addition, Center staff are requesting \$73,000 to increase the stipend level of all 64 fellows in order to continue meeting the federal definition of "exempt" employees and thus avoiding the requirement that fellows program participants be paid overtime or be required to maintain time cards.

Total augmentation request: \$370,000.

Staff notes that the \$275,000 of funding requested for benefits increases covers a multi-year timeframe and includes monies for costs that have already been paid but for which the Center received no additional compensation. The actual year-over-year (2004-05 to 2005-06) benefit cost increase for both the fellows and the Center staff is \$214,000. The bulk of this increase is attributable to the host campus (CSU, Sacramento) withdrawing its direct financial support of benefits for Center staff.

Both the Department of Finance (DOF) and the Legislative Analyst (LAO) note that, in the computation of the three percent General Fund increase for CSU (pursuant to the Governors' "compact" with higher education), DOF included the appropriation for the Center for California Studies in its calculation. As a result, the CSU system is being provided with an additional \$81,750 in 2005-06 that should be "passed through" to the Center for California Studies.

As such, staff recommends that the committee shift \$81,750 from the CSU main budget item (6610-001-0001) to the Center for California Studies Item (6610-002-0001) and appropriate an additional \$227,250 General Fund, for a total augmentation of \$309,000 (which should be sufficient to cover (1) the year-to-year benefit costs; (2) the fee increases for fellows; and (3) stipend increase).

II. California Student Aid Commission

The Governor's 2005-06 Budget proposes a total of \$1.4 billion in expenditures (\$746 million General Fund) for the California Student Aid Commission, which reflects a \$44.6 million or a six percent increase above estimated current-year expenditures.

Figure 1

Student Aid Commission

Budget Summary^a

(Dollars in Millions)

	2004-05 Revised	2005-06 Proposed	Change	
			Amount	Percent
Expenditures				
Cal Grant programs				
Entitlement	\$551.0	\$608.9	\$57.9	11%
Competitive	116.2	124.9	8.7	7
Pre-Entitlement	37.2	7.4	-29.8	-80
Cal Grant C	9.7	10.3	0.6	6
Subtotals—Cal Grant ^b	(\$714.1)	(\$751.4)	(\$37.3)	(5%)
APLE ^c	\$34.0	\$40.9	\$6.9	20%
Graduate APLE	0.2	0.4	0.2	75
National Guard APLE	—	0.2	0.2	—
Law enforcement scholarships	0.1	0.1	—	1
Totals	\$748.5	\$793.1	\$44.6	6%
Funding Sources				
General Fund	\$589.4	\$745.5	\$156.1	26%
Student Loan Operating Fund ^d	146.5	35.0	-111.5	-76
Federal Trust Fund ^d	12.6	12.6	—	—
Totals	\$748.5	\$793.1	\$44.6	6%

^a In addition to the programs listed, the commission administers the Byrd Scholarship and Child Development Teacher and Supervisor programs—both of which are supported entirely with federal funds. It also administers the Student Opportunity and Access program, an outreach program supported entirely with Student Loan Operating Fund monies.

^b Includes \$46,000 for the Cal Grant T program in 2004-05. The program has been phased out as of 2005-06.

^c Assumption Program of Loans for Education.

^d These monies pay for Cal Grant costs as well as support and administrative costs.

Specifically, the Governor's Budget proposes an increase of \$37.3 million (five percent) over the current year expenditures for the Cal Grant Program. Following are the adjustments to the Cal Grant Program as proposed by the Governor: (1) Augment the Cal Grant A and B programs to cover the eight percent student fee increases at the University of California and California State University (\$23.2 million); (2) increase the total number of Cal Grants available (by 3,345 for a total of 259,570 new and renewal grants) based on new estimates of eligible high school graduates, transfer students and renewal applicants (\$21.6 million); and (3) decrease the maximum Cal Grant award level for students attending private institutions (\$7.5 million).

Other adjustments to the Student Aid Commission's budget include a \$6.9 million increase in the funding available for the Assumption Program of Loans for Education Program (APLE). This funding adjustment is needed to cover the loan-forgiveness costs associated with previously-issued warrants. The Governor proposes to issue 7,700 APLE warrants in 2005-06, the same number as authorized in the current year.

In addition, the Administration's budget proposal implements the National Guard APLE program which offers loan forgiveness to individuals who enlist or re-enlist in the National Guard, State Military Reserve and/or Naval Militia by authorizing 100 new warrants and \$200,000 in funding.

A. Cal Grant Program (Update)

As discussed above, the Administration proposes a variety of "baseline" adjustments to the Cal Grant program, including augmentations to increase the number of awards (pursuant to the programs' statutory guidelines) and cover costs associated with fee increases at the UC and CSU.

In addition, the Administration has reduced funding appropriated for the Cal Grant program in the current year (via Control Section 4.10, Budget Act of 2004) by approximately \$50 million due to a decrease in the number of grants actually issued to students and the corresponding monetary value of those grants. Staff notes that, for the past several years, the Student Aid Commission has consistently reverted between \$30 and \$50 million to the General Fund from the Cal Grant program. As such, staff recommends that the committee seek assurances from the Student Aid Commission and the Department of Finance that the Cal Grant projections we employ for the coming fiscal year will be more "on the mark" than in past years.

B. Proposed Decrease to Maximum Cal Grant Award for Private College Students

The Governor proposes to reduce the grant level for students attending private and independent colleges by 10.5 percent. This would result in the maximum grant level being decreased from the current amount of \$8,332 to \$7,449. The Governor's proposal would only impact new Cal Grant recipients; students currently receiving awards would retain their higher valued grant. The Administration estimates that this reduction will reap \$7.5 million in General Fund savings.

Between 2003-04 and 2004-05, the maximum Cal Grant award level for students attending private colleges and universities has decreased by \$1,376 (14 percent), from an annual award level of \$9,708 to the current level of \$8,332. Coupled with the 2005-06 proposal, the buying power of the grant will have decreased over 23 percent, not accounting for inflation.

In response to the Governor's proposal, the LAO recommends that the Legislature adopt a statutory policy to link the award level for a private university Cal Grant to the amount of the General Fund subsidy the state provides to financially-needy students attending the University of California (UC) and California State University (CSU). At present, Assembly Bill 358 (Liu) is making its way through the policy committee process and seeks to encompass many of the changes recommended by the LAO. Staff notes that prior to the implementation of the current Cal Grant entitlement program (Chapter 403, Statutes of 2000), state law provided for annual adjustments to the private college grant amount based on the state support provided per student to the UC and CSU.

If the LAO's policy were enacted for the coming fiscal year, it would raise the maximum grant amount to \$10,568, costing the state a total of \$26.6 million over the amount provided in the Governor's Budget. To restore the grant to its current year level of \$8,332 will cost the state \$7.5 million more than the amount provided in the Governor's Budget.

Staff notes that, as in prior years, the Governor's proposal appears to contradict the original public policy rationale for paying a higher award level to private college students: Allowing students to make a real choice among the higher education options, and as a result, purposely redirecting a portion of the eligible postsecondary students to nonpublic institutions. The goal of the policy was to: (1) assist the state in avoiding additional costs associated with providing postsecondary education for ALL eligible students; and (2) help to manage the surging student enrollments under the Tidal Wave II population boom.

Further, staff recommends that the Legislature consider the LAO's recommendation to develop a statutory policy to guide the level of the maximum Cal Grant award for private institutions. However, staff notes that this type of programmatic statutory change would best be dealt with via the policy committee process. In conclusion, staff recommends that \$7.5 million General Fund be placed on the "checklist" to backfill the Governor's proposed reduction, pending the May Revision.

C. Shift of EdFUND Student Loan Operating Fund dollars to Cal Grants

Background. Operating under California statute, EdFUND is a nonprofit “auxiliary” organization of the California Student Aid Commission which administers the Federal Family Education Loan Program (FFELP) on behalf of the state. Student loans under the FFELP are guaranteed by the federal government in order to ensure that lenders themselves do not bear the risk associated with lending money to students (who traditionally have no credit or payment history) and that students don’t “pay” for this increased risk in the form of high loan fees and interest rates. In addition to FFELP, the federal government also operates a Direct Lending program which places the federal government in the role of both lender and guarantor by directly lending money to students via their educational institutions.

Colleges and universities which offer student loan programs have a choice between a variety of FFELP “guarantors” (EdFund is only one of several guarantee agencies in the country) or the federal Direct Lending program. In the mid-1990s, the Legislature and the Governor explicitly granted the Student Aid Commission’s request to statutorily establish EdFund, freeing the organization of state bureaucratic constraints, so that it could actively participate in the competitive student lending and guarantee marketplace.

Since then, EdFund has been remarkably successful. So much so, that it has generated a sizable operating surplus, due to the loyalty of EdFund customers and its continued success in avoiding student loan defaults. The Student Loan Operating Fund (SLOF) surplus is relatively new and is expected to be short-term in nature. In recent years, the Legislature and the Governor shifted ongoing operational funding for the Student Aid Commission *from* the General Fund *to* the SLOF in order to preserve General Fund resources. In addition, \$146.5 million worth of state Cal Grant expenditures are being paid by the SLOF in the current year, thereby freeing up a like-amount of General Fund for other priorities.

Issue. The Administration once again proposes using SLOF monies, on a one-time basis, to offset a portion of the General Fund expenditures in the Cal Grant program. Specifically, the Governor proposes using \$35 million of the SLOF surplus to fund Cal Grants in 2005-06. This sum is in addition to the \$13.2 million in ongoing SLOF dollars proposed to support the operating costs of the California Student Aid Commission.

As part of its Analysis of the 2005-06 Budget Bill, the LAO identified additional SLOF surplus funds that could be used to supplant even more General Fund in the Cal Grant Program. Specifically, the LAO suggests using approximately \$26.6 million more of SLOF monies to support Cal Grants, thereby offsetting and saving \$61.6 million in General Fund resources.

Staff notes that it remains unclear if the additional \$26.6 million in SLOF would actually be available for this purpose or if those dollars should be retained by EdFUND in order to further its business diversification efforts (as authorized pursuant to Chapters 216 and 657, Statutes of 2004). Further, the balance of the SLOF is deeply dependent on a variety of revenue streams including funds derived from a "bonus" plan from the federal government which seeks to compensate state student loan guaranty agencies for low student loan default rates. It is unclear whether these various funding streams will continue, much less at the current level.

As such, staff recommends that the committee approve the Administration's proposal to use \$35 million in SLOF monies for the Cal Grant Program, but hold open the LAO's proposal to use an additional \$26 million in SLOF funds, pending the May Revision and further discussion of the EdFUND organizational issues noted below.

D. EdFUND: Informational item.

In recent years, the state has "tapped" EdFUND and its Student Loan Operating Fund (SLOF) to support a variety of state financial aid activities that, until fiscal year 2003-04, had been paid for by the General Fund. Specifically, beginning in 2003-04, the SLOF began paying the approximately \$12.5 million in ongoing operational costs of the Student Aid Commission; in 2004-05 the SLOF contributed over \$146 million to the Cal Grant Program; and in 2005-06 the LAO recommends shifting over \$60 million in SLOF funds to Cal Grants.

As the state begins to rely on SLOF monies to offset General Fund expenses, it seems prudent for the legislature to re-examine the relationship between EdFUND and the state, and determine if the current organizational structure will continue to meet our needs, both in the delivery of high quality loan services to our students and by providing a revenue source to help the state manage the increasing costs of providing financial aid.

Specifically, the Legislature may wish to consider the following:

- *What interest (if any) does the state have in directly administering a federal student loan program?*
- *Is it important for a state entity (or quasi-state entity) to administer the FFELP program?*
- *If the state determines that it has a valid public policy reason for maintaining administration of the FFELP program, are there other structural options that exist which may better serve our state needs for the administration of the program and ensuring an ongoing revenue stream to the state?*

Similar questions have arisen within the broader financial aid community since the April 15, 2005 Student Aid Commission board meeting. At that board meeting, the Student Aid Commissioners voted to "reconstitute" the EdFUND Board of Directors, thereby removing six of the 13 EdFUND board members (the only remaining members are those who also serve on the Student Aid Commission as well as the student member, EdFUND employee and EdFUND executive director).

The action of the Student Aid Commission (to remove the six members) is effective May 31, 2005. In the meantime, the Commission intends to review the roles and responsibilities of EdFUND, including reviewing EdFUND's bylaws and making recommendations for change. While Student Aid Commission representatives downplay the significance of the Commission's recent vote, staff remains concerned that any major changes at EdFUND may impact the stability of the organization and jeopardize the ability of the state to continue utilizing excess revenues derived from EdFUND's operations.

While the underlying policy issues are likely best addressed in the legislative process, staff notes that the state will need to make some critical decisions regarding EdFUND in the near future. Further, staff cautions the subcommittee to take these underlying issues into account when determining the appropriate sum of SLOF to use to displace General Fund in the Cal Grant program.

E. National Guard Assumption Program of Loans for Education (APLE)

The National Guard APLE program was established in statute in 2003 (Chapters 345, Statutes of 2003), but to-date the Student Aid Commission has not been provided with either the authority to issue warrants or the funds to administer the program. The Governor's Budget seeks to fund this new program by proposing that 100 new loan forgiveness warrants be authorized in 2005-06 and appropriating \$200,000 in loan forgiveness repayments for the program.

In addition, as part of its April Finance Letter, which revises the January budget proposal, the Administration is proposing 1.0 limited term position and \$65,000 (from the Student Loan Operating Fund, which is used to support all of the Student Aid Commission's operational costs).

The issue for the subcommittee to consider is: *During difficult fiscal times, is it the priority of the legislature to provide monetary support for a loan forgiveness program that seeks to encourage students to enroll in the National Guard, State Military Reserve or the Navel Militia?*

IF the committee wishes to provide support for this program it needs to make two adjustments. First, the LAO notes that since no National Guard APLE warrants have yet to be issued, then there should be no repayment costs associated with this program in 2005-06. As such, the committee should reduce funding for this program by \$200,000 and alter Provision 1 of Item 7980-101-0001 to reflect this action. Second, the committee should approve the April Finance Letter approving 1.0 limited term position and \$65,000.

III. PROPOSED CONSENT

Staff recommends that the following items be Approved as Budgeted.

6440-301-6041 Capital Outlay, University of California, all projects, per attached.

6440-302-6041 Capital Outlay, University of California, all projects, per attached.

6440-401 Capital Outlay, University of California.

6440-491 Reappropriation, University of California, *add item per May 1, 2005 Finance Letter* to reappropriate funding for following projects: (1) San Diego Campus, music building; (2) Davis Campus, Mondavi Institute for Wine and Food Science; (3) Davis Campus, Seismic Correction, Phase 4; (4) Merced Campus, Logistical Support/Service Facilities.

6440-495 Reversion, University of California.

6610-301-6041 Capital Outlay, California State University, all projects, per attached and *as amended by May 1, 2005 Finance Letter* for technical correction regarding streamlining of projects.

6610-302-6041 Capital Outlay, California State University, all projects, per attached.

6610-401 Capital Outlay, California State University.

6610-493 Capital Outlay, Reappropriation, California State University, *add item per May 1, 2005 Finance Letter* to reappropriate funds for Humboldt Behavioral and Social Sciences Building.

6610-494 Capital Outlay, Extension of Liquidation Period, California State University, *add item per May 1, 2005 Finance Letter* to extend liquidation period of construction funds by one year for San Francisco State University Hensill Hall Seismic Project and the Los Angeles Telecommunications Infrastructure Project.

6870-301-6028 Capital Outlay California Community Colleges, Santa Barbara City College Physical Science Renovation – Construction, *as amended by April 2005 Finance Letter*, \$3,398,000.

6870-490 Capital Outlay, Reappropriation, California Community Colleges, *amend item per May 1, 2005 Finance Letter* to reappropriate funds for 34 projects in 20 community college districts.

6870-496 Capital Outlay, Reversion, California Community Colleges, *revert funds per May 1, 2005 Finance Letter* for a total of three projects on the Miracosta, Santa Barbara and Compton Community College campuses.

7980-101-0890 Local Assistance, California Student Aid Commission, \$12,583,000.

7980-495 Reversion, California Student Aid Commission.

UNIVERSITY OF CALIFORNIA 2005-06 CAPITAL BUDGET

Campus	Project Name	Phase	Funds Requested
Berkeley	Seismic Safety Corrections, Giannini Hall	P	\$1,055,000
Berkeley	Doe Library Seismic and Program Improvements, Step 4	C	30,810,000
Davis	Electrical Improvements, Phase 3	W/C	10,166,000
Davis	Physical Sciences Expansion	W/C	46,280,000
Davis	Steam Expansion, Phase 1	W/C	10,483,000
Irvine	Engineering Unit 3	C	47,347,000
Irvine	Social and Behavioral Sciences Building	P/W	2,850,000
Irvine	Computer Science Unit 3	E	3,025,000
Los Angeles **	Life Sciences Replacement Building, <i>as amended per April 2005 Finance Letter with accompanying provision language.</i>	W/C	52,042,000
Riverside	Environmental Health and Safety Expansion	P/W	1,000,000
Riverside	Student Academic Support Services Building	P/W	1,650,000
Riverside	Materials Science and Engineering Building	C	50,549,000
San Diego	Biomedical Library Renovation and Addition	E	695,000
San Diego	Student Academic Services Facility	E	504,000
San Diego	Mayer Hall Addition and Renovation	E	445,000
San Diego	Music Building	C	36,125,000
San Francisco	Medical Sciences Building Improvements, Phase 2	C	15,319,000
Santa Barbara	Snidecor Hall Office Wing Seismic Replacement	E	405,000
Santa Cruz	Humanities and Social Sciences Facility	E	1,075,000
Santa Cruz	McHenry Project	C	33,782,000
Santa Cruz	Alterations for Engineering, Phase 3	C	4,161,000
Santa Cruz	Digital Arts Facility	W	888,000
Santa Cruz	Infrastructure Improvements, Phase 1	P	777,000
Ag & Natural Resources	Lindcove Research and Extension Center Laboratory Facility	P/W/C	1,030,000
	TOTAL:		\$352,463,000

CALIFORNIA STATE UNIVERSITY

FY 05/06 Capital Outlay

Item:	Amount
6610-301-6041 For capital outlay, California State University, payable from the Higher Education Capital Outlay Bond Fund of 2004	
Systemwide: Minor Capital Outlay Program, Preliminary plans, working drawings and construction	16,000,000
Hayward: Seismic Upgrade, Warren Hall, Working drawings, as amended by May 1, 2005 Finance Letter	963,000
Hayward: Rescope/Fund Student Services Replacement Bldg, as amended by May 1, 2005 Finance Letter	1,651,000
Long Beach: Seismic Upgrade, Liberal Arts 2, 3 and 4, Preliminary plans, working drawings and construction	1,253,000
Dominguez Hills: Educational Resource Center Addition, Construction, as amended by May 1, 2005 Finance Letter	34,876,000
Long Beach: Peterson Hall 3 Replacement Building, Working drawings, as amended by May 1, 2005 Finance Letter	2,048,000
Pomona: Library Addition & Renovation, Phase I, as amended by May 1, 2005 Finance Letter	55,222,000
Subtotal	112,013,000
6610-302-6041 For capital outlay, California State University, payable from the Higher Education Capital Outlay Bond Fund of 2004	
Chico: Student Services Center, Equipment	2,201,000
Fresno: Library Addition and Renovation, Working drawings and construction	86,419,000
Humboldt: Forbes PE Complex Renovation, Working drawings and construction	41,488,000
Humboldt: Mai Kai Land Acquisition, Acquisition	6,000,000
Long Beach: Library Addition and Renovation, Working drawings and construction	31,326,000
Los Angeles: Science Replacement Building, Wing A, Equipment	4,635,000
Northridge: Performing Arts Center, Preliminary plans	1,210,000
San Diego: Social Sciences/Art Gallery/Parking Structure 8, Equipment	3,324,000
San Jose: Joint Library, Secondary Effects, Equipment	2,171,000
San Luis Obispo: Engineering/Architecture Renovation and Replacement, Phase II, Equipment	5,573,000
San Marcos: Craven Hall Renovation, Equipment	527,000
Sonoma: Darwin Hall, Equipment	2,221,000
Sonoma: Music/Faculty Office Building, Construction	16,247,000
Stanislaus: Science II (Seismic), Equipment	<u>3,025,000</u>
Subtotal	<u>206,367,000</u>
Total Consent List	318,380,000